

CITY OF STEPHENSON
AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
AND SUPPLEMENTAL REPORT
YEAR ENDED JUNE 30, 2008

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF STEPHENSON	County MENOMINEE
Audit Date JUNE 30, 2008	Opinion Date JULY 23, 2008	Date Accountant Report Submitted to State: JULY 23, 2008	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) RAY PAYMENT, CPA			
Street Address 617 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature 			

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RAYMOND L. PAYMENT
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July 23, 2008

INDEPENDENT AUDITOR'S REPORT

Honorable City Council
City of Stephenson
Stephenson, Michigan

I have audited the combined financial statements of the City of Stephenson as of June 30, 2008, and the related statements of revenues and expenditures and fund balances for the year then ended. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the various funds of the City of Stephenson at June 30, 2008, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated July 23, 2008 on my consideration of the City of Stephenson's internal control over financial reporting and

July 23, 2008

my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

The financial statements referred to in the foregoing opinion are identified in the contents of this report. My examination was made primarily for the purpose of rendering an opinion on these basic financial statements, taken as a whole. The supplementary financial data identified in the contents, although not considered necessary for a fair presentation of the assets and liabilities of the various funds of the City of Stephenson at June 30, 2008 is presented primarily for supplement analysis purposes. This additional information has been subjected to the audit procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ray L. Payment
Certified Public Accountant

CITY OF STEPHENSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2008

Management's Discussion and Analysis

This section of the City of Stephenson annual financial report presents our discussion and analysis of the City's performance during the year ended June 30, 2008. It is to be read in conjunction with the City's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) Basic Financial Statements - and Managements Discussion and Analysis - for State and Local Governments, as amended and interpreted, and is intended to provide the financial results for the fiscal year ending June 30, 2008.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the City as a whole. The statements are prepared using the accrual method of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the City's assets and liabilities except the fiduciary funds and proprietary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental activities of the City that include all services performed by the City. These activities are funded primarily by property taxes and by state grants.

The statement of net assets reports the City's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets of the City. This statement measures the financial strength of the City; the greater the net asset figure, the healthier the financial position of the City generally is. It helps management determine if the City will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expense basis. It shows the operating results for a given year of the City. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the City.

CITY OF STEPHENSON
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Fund Financial Statements

The City's fund financial statements show a detail of funds that are determined to be significant, called major funds. The funds that are separately stated as the major fund are the General Fund and Special Revenue Funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the City reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Although the government-wide financial statements and the fund financial statements use different methods of accounting to report the City's financial condition, there are no current year differences between the two types of statements except depreciation expense and fixed assets.

Fiduciary funds, such as the Trust and Agency and Tax Collection Funds, are reported in the fiduciary fund financial statement, but are excluded from the government-wide reporting. The fiduciary fund financial statement reports resources that are not available to fund City programs. The fiduciary fund financial statement reports similarly to governmental funds.

Proprietary funds, such as the Water, Sewer and Electric Funds are also reported separately as the Utility Funds. These funds are available to operate the utility activities of the City.

CITY OF STEPHENSON
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements - Condensed Financial Information

Statement of Net Assets

The following is a June 30, 2008 condensed statement of net assets with a detailed analysis of the statement below.

	<u>Governmental Activities</u>	
	June 30,	
	<u>2007</u>	<u>2008</u>
ASSETS		
Current Assets:		
Cash and CD's	\$ 513,586	\$ 473,105
Receivables	<u>198</u>	<u>281</u>
Total Current Assets	\$ 513,784	\$ 473,386
Noncurrent Assets -		
Capital assets, net of accumulated depreciation	<u>481,164</u>	<u>583,396</u>
Total Assets	<u>\$ 994,948</u>	<u>\$1,056,782</u>
LIABILITIES		
Accounts payable	<u>\$ 9,773</u>	<u>\$ 11,257</u>
NET ASSETS	<u>\$ 985,175</u>	<u>\$1,045,525</u>
Invested in capital assets, net of related debt	\$ 481,164	\$ 583,396
Unrestricted	449,087	396,321
Restricted	<u>54,924</u>	<u>65,808</u>
Total Net Assets	<u>\$ 985,175</u>	<u>\$1,045,525</u>

The City's governmental net assets are \$1,045,525 at June 30, 2008. Capital assets are \$583,396. This figure is derived by taking the original cost of the City's assets and subtracting accumulated depreciation to date.

CITY OF STEPHENSON
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Statements - Condensed Financial Information

Statement of Net Assets (Continued)

The total restricted and unrestricted net assets are \$462,129 as of June 30, 2008. This is the net accumulated result of the current and past years' operations. The balance in the unrestricted net assets shows that the City has an ample amount of assets to fund liabilities at June 30, 2008.

Statement of Activities

The results of operations for the City as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal year ended June 30, 2008.

	<u>Governmental Activities</u>	
	June 30,	
	<u>2007</u>	<u>2008</u>
Revenue:		
Program Revenues:		
Charges for services	\$ 23,831	\$ 26,479
Operating grants and contributions	88,073	91,410
General Revenues:		
Taxes and collection fees	68,581	85,394
State and federal grants	77,213	73,035
Interest	24,030	27,473
Other revenue	<u>22,399</u>	<u>4,638</u>
Total Revenue	\$ 304,127	\$308,429
Program expenses -		
Governmental activities	<u>247,295</u>	<u>248,079</u>
Increase in Net Assets	<u>\$ 56,832</u>	<u>\$ 60,350</u>

The City had an overall increase in net assets of \$60,350 for the year ended June 30, 2008. The City's revenues totaled \$308,429.

CITY OF STEPHENSON
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Activities (Continued)

The City's total cost to fund governmental activities was \$248,079. A majority of these costs were funded by property taxes and state and federal grants. This shows the City has reliance on property taxes and grants to provide future funding for its programs and administrative costs.

Governmental Fund Budgetary Items

A schedule showing the City's final budget and the actual results are included as required supplementary information in the financial section of the audit report.

Capital Assets

At June 30, 2008 the City had \$583,396 invested in capital assets net of accumulated depreciation. The changes in capital assets during the year ended June 30, 2008 were equipment purchases of \$144,912 and depreciation expense of \$42,680.

Debt

The City had no outstanding debt at June 30, 2008 in the Governmental Funds.

Future Considerations

The change in state aid payments along with State budget cuts will impact the financial condition of the City. The City has adopted a budget for the upcoming fiscal year that should not over expend it's funding and leave the City with a positive Fund Balance.

Contacting the City

If you have any questions about this report or need additional information, contact the City offices.

BASIC
FINANCIAL
STATEMENTS

CITY OF STEPHENSON
STATEMENT OF NET ASSETS

June 30, 2008

ASSETS

CURRENT ASSETS:

Cash and CD's	\$ 473 105
Receivables	<u>281</u>

TOTAL CURRENT ASSETS	\$ <u>473 386</u>
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NONCURRENT ASSETS

Capital assets	934 855
Less accumulated depreciation	<u>(351 459)</u>

TOTAL NONCURRENT ASSETS	<u>583 396</u>
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TOTAL ASSETS	<u>\$ 1 056 782</u>
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LIABILITIES

Accounts payable	\$ <u>11 257</u>
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NET ASSETS	<u>\$ 1 045 525</u>
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Invested in capital assets, net of related debt	\$ 583 396
Unrestricted	396 321
Restricted	<u>65 808</u>

TOTAL NET ASSETS	<u>\$ 1 045 525</u>
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The accompanying notes are an integral part of
the financial statements.

CITY OF STEPHENSON
STATEMENT OF ACTIVITIES

June 30, 2008

		<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>			
Governmental activities:				
Legislative and General				
Government	\$ 33 071	\$ -	\$ -	\$ (33 071)
Public Safety	36 342	-	623	(35 719)
Public Works	57 810	-	86 774	28 964
Other functions	78 176	26 479	4 013	(47 684)
Unallocated - depreciation	<u>42 680</u>	<u>-</u>	<u>-</u>	<u>(42 680)</u>
Total Governmental Activities	\$ 248 079	\$ 26 479	\$ 91 410	\$ (130 190)
General revenues:				
Taxes and collection fees				\$ 85 394
State and federal grants				73 035
Interest				27 473
Other revenue				<u>4 638</u>
Total General Revenues				<u>190 540</u>
Changes in Net Assets				\$ 60 350
Net assets at July 1, 2007				<u>985 175</u>
Net assets at June 30, 2008				<u>\$ 1 045 525</u>

The accompanying notes are an integral part of the financial statements.

CITY OF STEPHENSON
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

ASSETS			
	General Fund	Special Revenue Funds	Total
Cash and CD's	\$ 317 079	\$ 156 026	\$ 473 105
Receivables	<u>281</u>	<u>-</u>	<u>281</u>
TOTAL ASSETS	<u>\$ 317 360</u>	<u>\$ 156 026</u>	<u>\$ 473 386</u>
LIABILITIES AND FUND EQUITY			
Liabilities - Accounts payable	\$ 10 615	\$ 642	\$ 11 257
Fund Equity - unreserved	240 937	155 384	396 321
reserved	<u>65 808</u>	<u>-</u>	<u>65 808</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 317 360</u>	<u>\$ 156 026</u>	<u>\$ 473 386</u>

The accompanying notes are an integral part
of the financial statements.

CITY OF STEPHENSON
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
WITH THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund equity of governmental activities	\$ 462 129
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Amounts reported for governmental activities in the
statement of net assets are different because:

 Additions:

 Capital assets used in government activities
 are not financial resources and therefore are
 not reported as assets in governmental funds.

Cost of capital assets	\$934 855	
Accumulated depreciation	<u>(351 459)</u>	<u>583 396</u>

Total net assets of governmental activities	<u>\$1 045 525</u>
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RECONCILIATION OF STATEMENT OF REVENUES AND
EXPENDITURES OF THE GOVERNMENTAL FUND
WITH THE STATEMENT OF ACTIVITIES
June 30, 2008

Excess revenues over (expenditures) of governmental activities	\$(41 882)
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 Additions:

Cost of capital assets acquired this year	144 912
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 Subtractions:

Depreciation expense	<u>(42 680)</u>
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Changes in net assets	<u>\$ 60 350</u>
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The accompanying notes are an integral part of the
financial statements.

CITY OF STEPHENSON
 COMBINED STATEMENT OF REVENUES AND EXPENDITURES
 AND CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2008

	General Fund	Special Revenue Funds	Total
REVENUES:			
Property taxes - Current	\$ 71 646	\$ -	\$ 71 646
- Collection Fees	5 598	-	5 598
- Delinquent & P.I.L.T.	8 150	-	8 150
State shared taxes	73 035	-	73 035
State grants - Motor Vehicle Highway Fund	-	86 774	86 774
Liquor law enforcement	-	623	623
Interest	23 552	3 921	27 473
Parking and City fines	439	-	439
Other reimbursements & misc.	3 602	597	4 199
Services rendered and rents	26 479	-	26 479
Metro act	4 013	-	4 013
	<u>216 514</u>	<u>91 915</u>	<u>308 429</u>
TOTAL REVENUES			
EXPENDITURES:			
City council	16 311	-	16 311
Mayor	3 967	-	3 967
Elections	580	-	580
General services	39 469	-	39 469
Fire department	13 998	-	13 998
Sanitation	5 336	-	5 336
Parks	17 320	-	17 320
Highways and streets	-	57 810	57 810
Law enforcement	23 060	623	23 683
Zoning and Downtown Development	146 951	-	146 951
Vehicle expenses	12 673	-	12 673
Administrative	12 213	-	12 213
	<u>291 878</u>	<u>58 433</u>	<u>350 311</u>
TOTAL EXPENDITURES			
EXCESS REVENUES AND OTHER SOURCES (EXPENDITURES & OTHER USES)	(75 364)	33 482	(41 882)
FUND BALANCES, beginning of year	<u>382 109</u>	<u>121 902</u>	<u>504 011</u>
FUND BALANCES, end of year	<u>\$ 306 745</u>	<u>\$ 155 384</u>	<u>\$ 462 129</u>

The accompanying notes are an integral part
 of the financial statements.

CITY OF STEPHENSON
COMBINED STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

June 30, 2008

ASSETS	
	Trust and Agency Fund
	<hr/>
Cash in bank	\$ 7 103
	<hr/>
TOTAL ASSETS	\$ 7 103
	<hr/>
LIABILITIES	
Customer Deposits	\$ 6 500
Payroll taxes withheld	<hr/> 603
	<hr/>
TOTAL LIABILITIES	\$ 7 103
	<hr/>

The accompanying notes are an integral
part of the financial statements.

CITY OF STEPHENSON
COMBINED BALANCE SHEET - UTILITY FUNDS
JUNE 30, 2008

	Electric Fund	Sewer Fund	Water Fund
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 794 369	\$ 41 035	\$ 205 970
Accounts receivable	48 622	16 155	10 495
TOTAL CURRENT ASSETS	842 991	57 190	216 465
PROPERTY, PLANT & EQUIPMENT:			
Land	11 800	800	-
Plant and equipment	640 436	1 641 622	722 197
Total	652 236	1 642 422	722 197
Less accumulated depreciation	(235 662)	(605 396)	(131 322)
Net Property, Plant & Equipment	416 574	1 037 026	590 875
RESTRICTED ASSETS:			
Funded equipment	140 908	12 879	16 075
Bond and interest reserve accounts	-	26 260	30 520
TOTAL RESTRICTED ASSETS	140 908	39 139	46 595
TOTAL ASSETS	\$1 400 473	\$1 133 355	\$ 853 935
<u>LIABILITIES</u>			
Accounts payable	\$ 40 843	\$ 2 899	\$ 2 554
Bonds payable	-	354 000	472 000
TOTAL LIABILITIES	40 843	356 899	474 554
<u>RETAINED EARNINGS</u>			
RETAINED EARNINGS - UNRESTRICTED	\$1 218 722	\$ 737 317	\$ 332 786
RETAINED EARNINGS - RESTRICTED	140 908	39 139	46 595
TOTAL RETAINED EARNINGS	1 359 630	776 456	379 381
TOTAL LIABILITIES AND RETAINED EARNINGS	\$1 400 473	\$1 133 355	\$ 853 935

The accompanying notes are an integral part
of the financial statements.

CITY OF STEPHENSON
STATEMENTS OF REVENUES AND EXPENDITURES,
AND CHANGES IN FUND BALANCE
UTILITY FUND
YEAR ENDED JUNE 30, 2008

	Electric Fund	Sewer Fund	Water Fund
OPERATING REVENUES:			
Charges for services:			
Electric and sales tax	\$ 616 910	\$ -	\$ -
Sewer	-	163 015	-
Water	-	-	111 640
Service charges and rents	5 185	1 865	533
Reimbursements and refunds	10 197	777	4 805
WPS settlement	100 825	-	-
TOTAL OPERATING REVENUES	733 117	165 657	116 978
OPERATING EXPENDITURES:			
Electric	699 688	-	-
Sewer - collection	-	10 577	-
Sewer - operating	-	141 262	-
Water	-	-	75 078
TOTAL OPERATING EXPENDITURES	699 688	151 839	75 078
OPERATING INCOME (LOSS)	33 429	13 818	41 900
NONOPERATING REVENUES (EXPENDITURES):			
Interest income	36 413	1 544	10 032
Interest on bonds	-	(16 065)	(21 398)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 69 842	\$ (703)	\$ 30 534
RETAINED EARNINGS, at beginning of period	1 289 788	777 159	348 847
RETAINED EARNINGS, at end of period	\$ 1 359 630	\$ 776 456	\$ 379 381

The accompanying notes are an integral part
of the financial statements.

CITY OF STEPHENSON
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 69 842	\$(703)	\$ 30 534
Non-cash expenses included in net income:			
Depreciation	32 277	40 263	14 431
Increase in accounts payable- (receivable)	<u>(4 905)</u>	<u>(10 160)</u>	<u>(7 437)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>97 214</u>	<u>29 400</u>	<u>37 528</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in property, plant and equipment - (net)	(63 783)	(9 969)	(49 164)
Increase (decrease) in bonds issued	<u>-</u>	<u>(6 000)</u>	<u>(7 000)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(63 783)</u>	<u>(15 969)</u>	<u>(56 164)</u>
NET INCREASE (DECREASE) IN CASH	33 431	13 431	(18 636)
CASH, BEGINNING OF YEAR	<u>901 846</u>	<u>66 743</u>	<u>271 201</u>
CASH, END OF YEAR	<u>\$ 935 277</u>	<u>\$ 80 174</u>	<u>\$ 252 565</u>

The accompanying notes are an integral part
of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stephenson operates under an elected City Council. The financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the City's accounting policies are described below.

Financial Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the City entity for financial-reporting purposes. The criteria established for determining the various governmental organizations to be included in the City's financial statements include oversight responsibility, scope of public service and special financing relationships.

On this basis, the financial statements of the local school district are not included in the financial statements of the City. Educational services are provided to citizens through the local school district, which is a separate governmental entity.

Basis of Presentation

Governmental-wide Financial Statements

The City government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the City except for the fiduciary activities and proprietary funds. All of the City activities are considered to be governmental activities except for the fiduciary and proprietary fund activities. There was no interfund activity to be eliminated in the Governmental-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental and fiduciary funds are provided. The City reports the General and Special Revenue Funds as the Major Fund.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund-based Financial Statements (Continued)

Governmental Fund Type

General Fund and Special Revenue Funds - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. This fund includes the general operating expenditures of the City. Revenues are derived primarily from property taxes, state and federal grants and various local sources. The Special Revenue Funds account for revenues and expenditures to be used as per legal or regulatory provisions.

Fiduciary Fund Type

The Trust and Agency Fund is used to account for assets held by the City in a trustee capacity. This fund is custodial in nature and does not involve measurement of results of operations.

Proprietary Funds

Proprietary Funds report activities that are financed primarily by user charges. The City's Utility Fund is a Proprietary Fund.

Basis of Accounting

Government-wide Financial Statements

The Governmental-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the City's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the City provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, nonrestricted state and federal aid and other revenues that are not program revenues are reported as general revenues.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Fund-based Financial Statements

Governmental fund types and Agency Funds use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available (often referred to as "susceptible to accrual"). Revenues are available when revenues are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The City considers revenues to be available if they are expected to be collected within 60 days of the end of the year, except that tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when all applicable eligibility requirements of the grants are met and resources are available. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recorded when due. The City has no long-term debt in the Governmental Funds.

Budgets and the Budgetary Process

The City Council adopts an annual operating budget, which can be amended by the Council throughout the year. Formal budgetary accounting is employed as a management control for the City. For budgetary purposes, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles. For this reason, there is no common basis for preparing a reconciliation between budgeted and actual amounts. The budgeted financial statements presented in this report reflect the final budget authorization, including all amendments. Budgets are adopted on the functional level and lapse at the end of the year.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Revenues

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 of the ensuing year with the final collection date of February 28 before they are added to the delinquent rolls. The City records property taxes as a revenue as collections are made, when monies are available for use to finance City operations. Delinquent real property taxes of the City and all other local units are purchased annually by the County. The City bills and collects its own property taxes and also collects current rolls for the County, Intermediate School District and Local School District.

Capital Assets and Depreciation

Capital assets include land, buildings and improvements and equipment and are reported in the Government-wide financial statements. Capital assets are defined by the City as assets with an acquisition cost of generally more than \$100 or betterments totaling \$1,000 with an estimated useful life in excess of five years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The Capital assets are depreciated using the straight-line method over the following useful lives:

Land	Not depreciated
Buildings and improvements	25-50 years
Equipment	5-10 years

Investment in Capital Assets

This is a portion of net assets of the City that consists of capital assets, net accumulated depreciation. The City had net investment in capital assets at June 30, 2008 of \$583,396.

Restricted Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted.

Fund Equity

The unreserved fund equity for governmental funds represent the amount available for budgeting future operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Accounting Change

Effective April 1, 2006, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). Significant changes to the Township's financial statements as a result of GASB No. 34 are as follows:

Management Discussion and Analysis - provides analysis of the City's overall financial position and results of operations as reported by the City's management.

Government-wide financial statements - Statement of Net Assets and Statement of Activities are prepared using the full accrual basis of accounting that includes all of the City's governmental activities.

Capital assets - recorded in the governmental activities statement of net assets at June 30, 2008 are \$934,855 along with \$351,459 of accumulated depreciation of those capital assets. The June 30, 2007 financial statements reported fixed assets in the General Fixed Assets Account Group (GFAAG) that has been eliminated for reporting purposes. No change was reported in the historical cost of the assets from the GFAAG to the current July 1, 2006 beginning capital assets balance.

Major funds - fund-based financial statements focus on major funds rather than fund-types. Major funds are determined based on the comparison of activity of individual governmental funds to total governmental fund activity.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - CASH INFORMATION

All deposits were made either in banks insured by federal depository insurance or with an investment broker who purchased certificates of deposit insured by federal depository insurance. Deposits were made in accordance with State of Michigan statutes and under authorization of the City Council.

At June 30, 2008 total cash and certificates of deposit as reported by banks and investment broker amounted to \$1,748,224, of which \$700,000 was covered by depository insurance and \$1,048,224 was not covered.

NOTE C - PROPERTY TAXES

A summary of the 2007 tax roll follows:

<u>Taxing Unit</u>	<u>Mills</u>	<u>Spread</u>	<u>Delinquent</u>	<u>Collected</u>
County	8.7966	\$ 115 496	\$ 8 486	\$ 107 010
State education tax	6.0000	78 781	5 471	73 310
Local school	19.9495	120 958	10 413	110 545
Intermediate school	2.2619	29 697	2 690	27 007
City - General	<u>6.0000</u>	<u>78 781</u>	<u>7 135</u>	<u>71 646</u>
TOTALS	<u>43.0080</u>	<u>\$ 423 713</u>	<u>\$ 34 195</u>	<u>\$ 389 518</u>
Taxable Valuation				<u>\$13 130 519</u>

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Public Act 275 of 1980 Disclosure

The City had no funds with a deficit as of June 30, 2008.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978, as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. The City was in substantial compliance with the Act.

NOTE E - PROPERTY TAX ADMINISTRATION FEE

The City has not established a subsidiary ledger to account for costs incurred in collection, assessing and reviewing of property tax levies as required by Public Act 503 of 1982. A summary of the transactions that would affect the balance sheet equity account for the ended June 30, 2008, follows:

Receipts from charging administrative fee	\$ 5 597
Cost incurred	<u>6 141</u>
Excess of costs	<u>\$ (544)</u>

NOTE F - CAPITAL ASSETS

Following is a summary of changes in capital assets during the year ended June 30, 2008:

	Balance at July 1, <u>2007</u>	<u>Additions</u>	<u>Disposals</u>	Balance at June 30, <u>2008</u>
<u>Governmental Activities</u>				
Assets:				
Buildings and improvements	\$ 553 545	\$ 143 573	\$ -	\$ 697 118
Equipment	<u>236 398</u>	<u>1 339</u>	<u>-</u>	<u>237 737</u>
	\$ 789 943	\$ 144 912	\$ -	\$ 934 855
Less accumulated depreciation	<u>(308 779)</u>	<u>(42 680)</u>	<u>-</u>	<u>(351 459)</u>
Net Capital Assets	<u>\$ 481 164</u>	<u>\$ 102 232</u>	<u>\$ -</u>	<u>\$ 583 396</u>

CITY OF STEHPENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The City has obtained coverage from commercial insurance companies.

All risk management activities are accounted for in the General Fund of the City. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2008, will not materially affect the financial condition of the City. Therefore, the financial statements contain no provisions for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - SEWER REVENUE BONDS PAYABLE

The sewer revenue bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2008 the required amount in this fund was \$26,260 and \$26,260 was on deposit. The original issue amount was \$400,000 for Sewer Fund construction.

BOND ISSUE NO. 1

4 1/2% SEWER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2008</u>
9/1/2007 thru 9/1/2010	\$ 6 000	\$ 18 000
9/1/2011 thru 9/1/2013	7 000	21 000
9/1/2014 thru 9/1/2016	8 000	24 000
9/1/2017 thru 9/1/2019	9 000	27 000
9/1/2020 thru 9/1/2021	10 000	20 000
9/1/2022 thru 9/1/2023	11 000	22 000
9/1/2024 thru 9/1/2025	12 000	24 000
9/1/2026 thru 9/1/2027	13 000	26 000
9/1/2028	14 000	14 000
9/1/2029 thru 9/1/2030	15 000	30 000
9/1/2031	16 000	16 000
9/1/2032 thru 9/1/2033	17 000	34 000
9/1/2034	18 000	18 000
9/1/2035	19 000	19 000
9/1/2036	20 000	20 000
9/1/2037	21 000	<u>21 000</u>
Total Bond Issue No. 1		<u><u>\$ 354 000</u></u>

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I - WATER BONDS PAYABLE

The water bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2008 the required amount in this fund was \$30,520 and \$30,520 was on deposit. The original issue amount was \$572,000 for Water Fund construction.

WATER BOND ISSUE NO. 1

4 1/2% WATER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2008</u>
9/1/2008 thru 9/1/2010	\$ 8 000	\$ 24 000
9/1/2011 thru 9/1/2012	9 000	18 000
9/1/2013 thru 9/1/2015	10 000	30 000
9/1/2016 thru 9/1/2017	11 000	22 000
9/1/2018 thru 9/1/2019	12 000	24 000
9/1/2020 thru 9/1/2021	13 000	26 000
9/1/2022	14 000	14 000
9/1/2023 thru 9/1/2024	15 000	30 000
9/1/2025	16 000	16 000
9/1/2026 thru 9/1/2027	17 000	34 000
9/1/2028 thru 9/1/2029	19 000	38 000
9/1/2030	20 000	20 000
9/1/2031	21 000	21 000
9/1/2032	22 000	22 000
9/1/2033	23 000	23 000
9/1/2034	24 000	24 000
9/1/2035	25 000	25 000
9/1/2036	26 000	26 000
9/1/2037	27 000	27 000
9/1/2038 thru 9/1/2039	29 000	8 000
Total		<u>\$ 472 000</u>

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF STEPHENSON
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL AND SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2008

	General Fund		
	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
CASH REVENUES:			
Property taxes			
- Current and	\$ 71 646	\$ 71 550	\$ 96
- Collection fees	5 598	5 300	298
- Delinquent and P.I.L.T.	8 150	450	7 700
State shared taxes	73 035	74 619	(1 584)
State grants - Motor Vehicle Highway Fund	-	-	-
Liquor law enforcement	-	-	-
Interest	23 552	3 300	20 252
Fines	439	450	(11)
Services rendered and rents	26 479	18 090	8 389
Other reimbursements & misc.	3 602	50	3 552
Metro act	4 013	-	4 013
TOTAL REVENUES	216 514	173 809	42 705
EXPENDITURES:			
City council	16 311	19 495	3 184
Mayor	3 967	3 900	(67)
Elections	580	680	100
General services	39 469	39 296	(173)
Fire department	13 998	14 090	92
Sanitation	5 336	5 915	579
Parks	17 320	26 900	9 580
Highways and streets	-	-	-
Law enforcement	23 060	24 337	1 277
Zoning and Downtown Development	146 951	153 445	6 494
Administrative	12 213	14 696	2 483
Vehicle expenses	12 673	12 786	113
TOTAL EXPENDITURES	291 878	315 540	23 662
EXCESS REVENUE AND OTHER SOURCES (EXPENDITURES & OTHER USES)	(75 364)	(141 731)	66 367
FUND BALANCES, beginning of year	382 109	382 109	-
FUND BALANCES, end of year	\$ 306 745	\$ 240 378	\$ 66 367

The accompanying notes are an integral part
 of the financial statements.

<u>Special Revenue Funds</u>		
<u>Actual Amount</u>	<u>Budget Amount</u>	<u>Variance Favorable (Unfavorable)</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
86 774	88 000	(1 226)
623	600	23
3 921	3 500	421
-	-	-
-	-	-
597	-	597
-	-	-
<u>91 915</u>	<u>92 100</u>	<u>(185)</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
57 810	63 216	5 406
623	600	(23)
-	-	-
-	-	-
-	-	-
<u>58 433</u>	<u>63 816</u>	<u>5 383</u>
33 482	28 284	5 198
<u>121 902</u>	<u>121 902</u>	<u>-</u>
\$ 155 384	\$ 150 186	\$ 5 198

OTHER
FINANCIAL
INFORMATION

CITY OF STEPHENSON
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL FIDUCIARY FUND TYPES
JUNE 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<u>ASSETS</u>				
Cash	\$ 7 840	\$ 473 640	\$ 474 377	\$ 7 103
TOTAL ASSETS	\$ 7 840	\$ 473 640	\$ 474 377	\$ 7 103
<u>LIABILITIES</u>				
Due to other taxing units:				
State of Michigan and Federal withholding	\$ 340	\$ 71 995	\$ 71 732	\$ 603
Customer deposits	7 500	2 000	3 000	6 500
City of Stephenson	-	78 182	78 182	-
Menominee County	-	108 525	108 525	-
Intermediate School District	-	27 197	27 197	-
Stephenson Area Schools	-	112 431	112 431	-
State of Michigan-S.E.T.	-	73 310	73 310	-
TOTAL LIABILITIES	\$ 7 840	\$ 473 640	\$ 474 377	\$ 7 103

The accompanying notes are an integral part
of the financial statements.

CITY OF STEPHENSON
COMBINED BALANCE SHEET - SPECIAL REVENUE FUNDS
JUNE 30, 2008

	Major Street Fund	Local Street Fund	Liquor Fund
<u>ASSETS:</u>			
CASH	\$ 143 375	\$ 12 651	\$ -
ACCOUNTS RECEIVABLE	-	-	-
TOTAL ASSETS	<u>\$ 143 375</u>	<u>\$ 12 651</u>	<u>\$ -</u>
LIABILITIES - ACCOUNTS PAYABLE	489	153	-
FUND BALANCES	<u>142 886</u>	<u>12 498</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 143 375</u>	<u>\$ 12 651</u>	<u>-</u>

The accompanying notes are an integral part
of the financial statements.

CITY OF STEPHENSON
COMPARATIVE BALANCE SHEETS - UTILITY FUNDS
JUNE 30, 2007 AND 2008

<u>ASSETS</u>	<u>Year Ended 2007</u>	<u>June 30, 2008</u>
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	\$ 2 893 939	\$ 3 016 855
Less accumulated depreciation	<u>(885 409)</u>	<u>(972 380)</u>
Net property and equipment	<u>2 008 530</u>	<u>2 044 475</u>
RESTRICTED ASSETS:		
Bond and Interest Redemption Fund - Cash	53 580	56 780
Funded Equipment - Cash	<u>200 336</u>	<u>169 862</u>
Total restricted assets	<u>253 916</u>	<u>226 642</u>
CURRENT ASSETS:		
Cash on deposit	985 874	1 041 374
Accounts Receivable	<u>81 446</u>	<u>75 272</u>
TOTAL ASSETS	<u>\$ 3 329 766</u>	<u>\$ 3 387 763</u>
<u>LIABILITIES, DEFERRED CREDITS AND RETAINED EARNINGS</u>		
RETAINED EARNINGS	\$ 2 415 794	\$ 2 515 467
LONG-TERM DEBT		
Revenue bonds payable - noncurrent portion	826 000	812 000
CURRENT LIABILITIES:		
Maturing bonds payable (Due January 1, 2008)	13 000	14 000
Accounts payable	<u>74 972</u>	<u>46 296</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 3 329 766</u>	<u>\$ 3 387 763</u>

The accompanying notes are an integral part
of the financial statements.

CITY OF STEPHENSON
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES - UTILITY FUNDS
YEAR ENDED JUNE 30, 2007 AND 2008

	Year Ended 2007	June 30, 2008
OPERATING REVENUES:		
Charges for services:		
Electric and sales tax	\$ 631 299	\$ 616 910
Sewer	169 864	163 015
Water	116 024	111 640
Service charges and rents	11 768	7 583
Reimbursements and refunds	22 455	15 779
WPS settlement - Electric	-	100 825
	<u>951 410</u>	<u>1 015 752</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENDITURES:		
Electric	582 423	699 688
Sewer - collection	9 299	10 577
Sewer - operating	200 983	141 262
Water	<u>83 568</u>	<u>75 078</u>
	<u>876 273</u>	<u>926 605</u>
TOTAL OPERATING EXPENDITURES		
OPERATING INCOME (LOSS)	75 137	89 147
NONOPERATING INCOME (EXPENDITURES):		
Interest income	60 305	47 989
Interest on bonds	<u>(38 026)</u>	<u>(37 463)</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 97 416	\$ 99 673
RETAINED EARNINGS, at beginning of period	<u>2 318 378</u>	<u>2 415 794</u>
RETAINED EARNINGS, at end of period	<u>\$ 2 415 794</u>	<u>\$ 2 515 467</u>

The accompanying notes are an integral part
of the financial statements.

CITY OF STEPHENSON
 COMBINED STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES
 ALL SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2008

	Major Street Fund	Local Street Fund	Liquor Fund
REVENUES:			
State grants	\$ 66 627	\$ 20 147	\$ -
Liquor law fees	-	-	623
Reimbursements & misc.	71	526	-
Interest income	3 357	564	-
TOTAL REVENUES	70 055	21 237	623
EXPENDITURES:			
Routine maintenance:			
Salaries	3 786	1 762	-
Traffic services & nonmotorized	103	103	-
Maintenance	812	434	-
Equipment rent to General Fund	1 581	973	-
Insurance	671	335	-
Payroll taxes & fringe benefits	1 985	966	-
Professional & contract services	34	34	-
Equipment rental	1 391	1 122	-
Bridge inspections	465	-	-
Winter maintenance:			
Salaries	7 769	4 209	-
Repairs and maintenance	1 710	855	-
Insurance	642	321	-
Equipment rent to General Fund	9 222	5 067	-
Professional and contract	16	33	-
Payroll taxes & fringe benefits	3 880	2 132	-
Equipment rental	3 544	1 770	-
Construction:			
Professional services	50	33	-
Law enforcement	-	-	623
TOTAL EXPENDITURES	37 661	20 149	623
EXCESS REVENUES (EXPENDITURES) AND OTHER SOURCES	32 394	1 088	-
FUND BALANCE, at beginning of period	110 492	11 410	-
FUND BALANCE, at end of period	\$ 142 886	\$ 12 498	\$ -

The accompanying notes are an integral part
 of the financial statements.

RAYMOND L. PAYMENT
CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH "GOVERNMENT AUDITING STANDARDS"

Members of the Council
City of Stephenson
Menominee County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Stephenson as of and for the year ended June 30, 2008, which collectively comprise the City of Stephenson's basic financial statements and have issued my report thereon dated July 23, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Stephenson's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose or expressing an opinion on the effectiveness of the City of Stephenson's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Stephenson's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Stephenson's ability to initiate,

authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City of Stephenson's financial statements that is more than inconsequential will not be prevented or detected by the City of Stephenson's internal control. I consider the deficiency described in the accompanying schedule of findings and questioned costs as items 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Stephenson's internal control.


My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the Schedule of Findings I consider item 07-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stephenson's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City of Stephenson's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the City of Stephenson's response and, accordingly, I express no opinion on it.

The report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ray L. Payment
Certified Public Accountant

SCHEDULE OF FINDINGS
CITY OF STEPHENSON

Year Ended June 30, 2008

SIGNIFICANT DEFICIENCIES

(07-1) Ability to Prepare Financial Statements and Related Note Disclosures

Like entities of similar size, the City uses the assistance of the auditor to draft the financial statements and related note disclosures.

The City will continue to focus its efforts on continuing education for the Mayor, Treasurer and Clerk. We will keep the funding level for education and training the same, but focus more in the financial preparation area than in the past. Trustees will seek out training to better understand the financial statements and the training funds will be at levels similar to the past. In addition, the City will continue to seek the auditor's assistance when necessary on procedural questions and drafting of financial statements and disclosures.

RAYMOND L. PAYMENT
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PHONE: 906-753-4700

July 23, 2008

Honorable City Council
City of Stephenson
Menominee County, Michigan

I have audited the financial statements of the City of Stephenson, Menominee County, Michigan, for the year ended June 30, 2008, and have issued my report dated July 23, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated July 15, 2008, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but no absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the integral control of the City of Stephenson, Menominee County, Michigan. Such considerations were solely for the purpose of determining my audit procedures and to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the City of Stephenson, Menominee County, Michigan's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter. I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Stephenson, Menominee County, Michigan, are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were recording cost values of fixed assets and accumulated depreciation of fixed assets.

Management's estimates of the cost values and related depreciation is based on estimated costs assets and State of Michigan guidelines, respectively. I evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Stephenson, Menominee County, Michigan's financial reporting process (that is, cause, future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed either individually or in the aggregate, indicate matters that could have a significant effect on the City of Stephenson, Menominee County, Michigan's financial reporting process.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

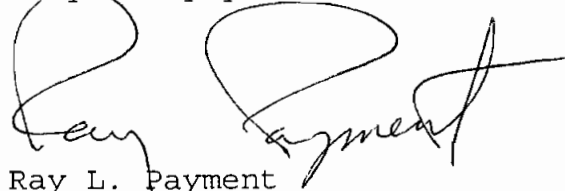
I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Stephenson, Menominee County, Michigan's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of the City of Stephenson Council and management of City of Stephenson, Menominee County, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ray L. Payment". The signature is stylized with large, sweeping loops and a long horizontal stroke at the end.

Ray L. Payment
Certified Public Accountant